THE DEPUTY SECRETARY OF AGRICULTURE
WASHINGTON

June 30, 1987

MEMORANDUM FOR THE WORKING GROUP ON RURAL COMMUNITIES

SUBJECT: Follow-up Assignment from June 26th Meeting

I appreciate your representation at the first Working Group meeting that was held June 26. As we discussed, our first assignment from Senator Howard Baker is to review the inquiries from Congressman Steve Gunderson. I have enclosed the entire Gunderson package for your consideration. The following people will have the responsibility to get their Department's policy response to me by July 20:

- Blue Ribbon Commission on Rural America--All members;
- Chapter 1 Concentration Grants of the Educational Improvement Act of 1981--John Pucciano, Acting Assistant Secretary, Department of Education, 732-2251;
- Wastewater Treatment Program--La Verne Ausman, Acting Under Secretary, Department of Agriculture, 447-5277;
- Older Americans Act of 1965 and Rural Health Care Issues--Dr. Robert Helms, Assistant Secretary, Health and Human Services, 245-1858;
- Employment Training Programs and Unemployment Statistics--Michael Baroody, Assistant Secretary, Department of Labor, 523-6181;
- Transportation Programs--Matt Scocozza, Assistant Secretary, Department of Transportation, 366-4544;
- Public Works--LTG Elvin Heiberg, III, Chief of Engineers, Army Corp of Engineers, 272-0001.

If you would like to comment on any of these issues, please call the above-mentioned people. Also enclosed is a participants list from the first meeting, an official membership list for the Working Group, and some information on rural enterprise zones put together by USDA.

If ever you feel it is necessary to hold a meeting to discuss any issues pertinent to our work, please feel free to call me. Thank you for your cooperation.

Peter Myers

PETER C. MYERS
Deputy Secretary

Enclosures

cc: Senator Howard Baker
Chief of Staff to the President

Eugene McAllister
Executive Secretary
Economic Policy Council

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

MEMBER:
AGRICULTURE COMMITTEE
EDUCATION AND LABOR COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515-4903

227 CANNON HOUSE OFFICE BUILDI
WASHINGTON, DC 20515-4903
202-225-5506

DISTRICT OFFICE:
P.O. BOX 247
438 NORTH WATER STREET
BLACK RIVER FALLS, WI 54615-024
1-800-472-8612
715-284-7431

MEMO 5/19/87

TO: The Honorable Howard H. Baker, Jr.
Chief of Staff
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

FROM: Steve Gunderson, M.C.
227 Cannon HOB
Washington, D.C. 20515

RE: Follow-up to our May 5, 1987, meeting at the White House with Agriculture Secretary Richard Lyng concerning rural economic development.

This packet contains a series of memos on perceived problems with federal formula programs regarding urban versus rural bias. The formula programs included are: transportation; wastewater treatment; Older Americans Act; jobs training; health care and concentration grants.

In addition to outlining these perceived problems, this packet contains information on the creation of a Blue Ribbon Presidential Commission on Rural America. It is my belief that such a commission should be charged with the responsibility of verifying the urban versus rural bias in major federal formula programs and recommending new formula approaches which would eliminate any such bias.

My commitment to assisting rural America in moving into the 21st century cannot be overstated. But I realize that before we can move forward on this initiative, we have to communicate to the nation that the farm problem of the past several years has had profound repercussions on the main streets of rural America not just on the farms.

I believe the Blue Ribbon Commission would go a long way toward educating the nation to this fact.

cc: David Bockorny
Special Assistant to the President
for Legislative Affairs
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

William L. Ball
Assistant to the President
for Legislative Affairs
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

MEMBER:
AGRICULTURE COMMITTEE
EDUCATION AND LABOR
COMMITTEE

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House of Representatives
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WASHINGTON, DC 20515-4903
202-225-5506

DISTRICT OFFICE:
P.O. BOX 247
438 NORTH WATER STREET
BLACK RIVER FALLS, WI 54615-0247
1-800-472-6612
715-284-7431

25 March 1987

The Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
General Accounting Office Building
441 G Street, Northwest
Washington, D.C. 20548

Dear Comptroller General Bowsher:

The House Subcommittee on Elementary, Secondary, and Vocational Education is currently in the process of reauthorizing ten programs within our jurisdiction.

During this reauthorization, there are areas of particular interest to rural members of the Subcommittee, and it would be of great assistance to have a General Accounting Office analysis and evaluation of the following items.

- o What is the impact of the Chapter 1 Concentration Grant formula on rural areas? Would an income requirement in the Chapter 1 Concentration Grant formula provide for a more equitable distribution of Chapter 1 Concentration Grant funds, reaching areas of greatest need?

- o Would there be a more equitable distribution of Chapter 1 Concentration Grants if the formula was driven by the Chapter 1 Basic Grant Formula?

- o An Interim Report from the National Assessment of Chapter 1, January, 1986, stated, "Children who experience long-term family poverty and children who live in areas with high concentrations of poverty are also more likely to belong to minority groups, more likely to live in the Southeast, and more likely to live in small rural areas." Would a concept of targeting Chapter 1 funds better meet the needs of inner city schools, and rural community schools, and if so, what type of targeting would reach these areas?

- o Is a system available to use more current data in distributing Chapter 1 Basic Grants?

- o In the distribution of Chapter 1 funds, how do areas with low enrollment and high capital costs fair? In the Chapter 1 formula, is this situation considered in the distribution of Chapter 1 funds?

As both Houses of Congress work to reauthorize the Chapter 1 program, we look forward to your assessment of the issues outlined above. In times of fiscal limitations, educational reform, and a movement toward greater competitiveness, it is necessary that Federal programs work responsively to reach those most in need.

Best regards,

William F. Goodling

Steve Gunderson

Carl C. Perkins

James M. Jeffords

Fred Grandy

Robert E. Wise, Jr.

Thomas E. Petri

Thomas J. Tauke

SG/meh

GAO United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

April 20, 1987

The Honorable Steve Gunderson
House of Representatives

Dear Mr. Gunderson:

Your letter of March 25, 1987, asked the General Accounting Office to analyze and evaluate several issues related to the formulas used to distribute both basic and concentration grants for educationally disadvantaged children under Chapter I of the Educational Improvement Act of 1981. In subsequent discussions you asked that we provide you with our initial assessment of the formula used to distribute concentration grants.

Based on our preliminary review of the formula and other existing studies there are indications that the current concentration grant formula may not equitably allocate funds to all school districts with high concentrations of such students. However, because the analysis and development of allocation formulas is a highly complex task, it will be approximately 6 months before we will be able to complete our analysis of the present allocation system and possibly suggest alternatives.

If you have any further questions, Mr. William Gainer, Associate Director for Employment and Education, can be reached at 275-5365.

Sincerely yours,

Richard L. Fogel

Richard L. Fogel
Assistant Comptroller General

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

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EDUCATION AND LABOR
COMMITTEE

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House of Representatives
Washington, DC 20515-4903

227 CANNON HOUSE OFFICE BUILDING
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1-800-472-6612
715-284-7431

Education for Disadvantaged Children
Chapter 1 - Education Consolidation and Improvement Act
Concentration Grants

Problem:

The formula used to distribute Concentration Grant does not adequately respond to areas with greatest need. Currently, concentration grants are distributed on a population basis, which does not highlight the educational needs of students.

The formula also uses 1980 Census data, which does not, in many cases reflect the current educational needs of a local educational agency [LEA]. Finally, the formula works off of county numbers.

A problem arises for a truely needy LEA with high concentrations of children from low-income families, but the county numbers do not qualify for Concentration grant funds, thus no additional assistance for a qualified LEAs.

Background:

The purpose of Concentration grants are to provide additional assistance to LEAs in counties with especially high concentrations of children from low-income families to enable LEAs in such counties to provide more effective programs of instruction, especially in the basic skills of reading, writing, and mathematics, to meet the special educational needs of educationally deprived children.

Examples of the Concentration Grant Formula Problems
In Wisconsin Counties

MILWAUKEE COUNTY

Total Students	Low Income Students	Low Income Percentage
118,108	25,240	21.3

Milwaukee County Concentration Grant = $2,953,000
v.
Milwaukee County Basic Grant = $1,801,000

BUFFALO COUNTY

School District	Total Students	Low Income Students	Low Income Percentage
Alma	375	126	33.6
Cochrane/ Fountain City	888	59	6.4
Gilmanton	267	79	29.5
Mondovi	1,063	211	19.8
	2,593	475	18.3

Buffalo County Concentration Grant = 0
v.
Buffalo County Basic Grant = $35,000

TREMPEALEAU COUNTY

School District	Total Students	Low Income Students	Low Income Percentage
Arcadia	1,023	123	12.2
Blair	516	98	18.9
Eleva/Strum	679	181	26.6
Galesville	1,511	203	13.4
Independence	525	63	12.0
Osseo	1,074	196	18.2
Whitehall	839	187	22.2
	6,167	1,051	17.0

Trempealeau County Concentration Grant = 0
v.
Trempealeau County Basic Grant = $54,000

C L A R K   C O U N T Y

School District	Total Students	Low Income Students	Low Income Percentage
Abbotsford	627	119	18.9
Colby	1,486	278	18.7
Greenwood	760	175	23.0
Loyal	852	216	25.3
Neillsville	1,416	232	16.3
Owen-Withee	929	205	22.0
Thorp	848	224	26.4
	6,918	1,449	20.9

Clark County Concentration Grant = $ 23,000
v.
Clark County Basic Grant = $107,000

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3D DISTRICT, WISCONSIN

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438 NORTH WATER STREET
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1-800-472-6612
715-284-7431

MEMO 5/19/87

TO: The Honorable Howard H. Baker, Jr.

FROM: Steve Gunderson, M.C.

RE: Wastewater Treatment Programs

Wastewater Treatment Program

The Allotment Formula

The formula (FYs 83-85) combines two factors (state population and estimated municipal sewage treatment funding needs), but with a complex formulation that gives weight to certain funding needs.

The new formula retains the two factor approach, but changes the weighting of funding needs. This new allocation is as much a political contest as anything.

Economic Research Service Report

A recent report by USDA's Economic Research Service compared rural and urban areas with regard to sewage treatment assistance from the federal government.

The report concluded that prior to 1981 EPA construction grant program priorities were biased in favor of larger communities. Coincidentally, 1981 marked the year when the construction grant program levels were substantially cut.

For some rural communities that have not yet constructed the required treatment facilities, the funding policy changes are untimely and unfair. Just as the programs designed to mitigate high construction costs reach them, they are reduced or eliminated.

Currently, incorporated communities with fewer than 2,500 people and unincorporated places account for 90% of the new construction need among communities of fewer than 50,000 persons. These smallest communities face the greatest financial hardship in meeting Clean Water Act requirements. Their per capita costs are estimated to average $3,700.

WATER AND WASTE DISPOSAL FACILITIES

Congressman Gunderson points out the higher per capita cost of meeting EPA regulations when applied to small communities. Section 1304 amended Section 306(a) of the Consolidated Farm and Rural Development Act (CONACT). In this amendment were changes to the water and waste disposal loan and grant program to provide for a graduated scale of grant rates establishing higher rates for projects in communities that have lower population and income levels.

To implement these changes the Agency had to develop a new regulation and revise current regulations. The changes were published as a proposed rule in the Federal Register on February 4, 1987. Public comments were received and the Final Rule has been developed and is presently being circulated for clearance within the Agency.

The target date for implementation is August 1987.

The final rule is currently in the Finance Office for review. When the final rule is received back from the Finance Office with any comments the other major reviews needed are Directives and Forms Management Division, OGC and OMB.

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

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EDUCATION AND LABOR
COMMITTEE

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Older Americans Act of 1965

Problem:

Realizing that there are many complex and unique problems in providing services in rural areas, Congress in 1978 inserted Section 307(a)(3)(B) to the Act to insure an adequate level of rural services. However, this so-called "rural bump" no longer has any real effect on the distribution of funds to rural areas because current appropriations are well above the 1978 benchmark levels. At least 11 states include some rural adjustment factor in their formulas for distributing funds in recognition of a higher cost of providing these services in rural areas, by this rural adjustment varies significantly from state to state, and in some cases may be more than offset by the urban biases of other aspects of the formula.

Rural Area Agencies on Aging [AAA] have made accommodations to deal with limited fiscal resources. Some are placed in a situation to restrict the geographical areas in which a service is provided, while other agencies dilute the service to spread it as far as it will go. Local governments and charities are helping the extent that they can, but simply do not have the local resources to meet the need.

In some states the intrastate funding formulas are skewed, [some based on population statistics and Medicaid numbers] thus making it easier for urban residents to qualify. In this area, the Older Americans Act must insure that intrastate funding formulas adequately and equitably target areas which are poorest and that they account for the higher costs of providing services in rural areas.

Background:

State agencies on aging are required to give special attention to rural elderly, through a requirement that they spend in each fiscal year an amount no less than 5 percent above the amount expended in 1978 for services to these individuals (Section 307(a)(1)(B)). In addition, each area agency, in conducting outreach activities to identify individuals eligible for assistance under the Act, is required to give special emphasis to rural elderly (Section 306(a)(5)(B)).

Another amendment in 1978 to the Older Americans Act allowed the Commissioner of the Administration on Aging to waive this requirement if the State could demonstrate that the needs of the rural elderly were being met, or if the number of rural older persons was insufficient to comply with the expenditure requirement.

Older Americans Act of 1965

Intrastate Funding Formulas

Allocation decisions under intrastate funding are appropriately made at the State level. This should remain a determination that reflects the rural population characteristics of individual States. Further federal intervention is unnecessary.

We note that in passing the Older Americans Act reauthorization on May 28th, the House adopted an amendment by Congressman Gunderson that requires State plans to describe the methods used to satisfy the service needs of older individuals living in rural areas. The House, however, rejected an amendment by Congresswoman Snowe to change the rural bump benchmark from 1978 to 1986.

6/12/87

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

MEMBER:
AGRICULTURE COMMITTEE
EDUCATION AND LABOR
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MEMO 5/19/87

TO : The Honorable Howard H. Baker, Jr.

FROM : Steve Gunderson, M.C.

RE : Rural Health Care -
Medicare Prospective Payment System [PPS]

Areas covered:

- o Area Wage Index
- o Disproportionate Share Adjustment
- o Outliers
- o Quality of Care
- o Rural Referral Centers
- o Swing Beds

STEVE GUNDERSON
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AREA WAGE INDEX

Problem:

The area wage index, which was intended to adjust Medicare payments to reflect labor costs to hospitals in the various areas, actually calculates wage variations among metropolitan statistical areas [MSAs]. All rural areas within a state are now assigned the same wage index despite the fact that there may be significants variation among different rural areas and within rural areas in the same state. The wage index does not accurately reflect wage costs in the non-metropolitian hospital labor market areas.

The wage costs of rural hospitals as shown by the index reflects general rural wage levels even though such hospitals generally drew their skilled employees from the same pool as the hospitals in urban communities.

There are differerces in labor force characteristics of rural hospitals from urban hospitals and not all of these differences are reflected in the prospective rates.

Background:

The area wage index is an adjustment to the Prospective Payment System [PPS] rate intended to reflect differences in labor costs incurred by hospitals among the geographic area in which they are located.

The Consolidated Omnibus Budget Reconciliation Act of 1986 [COBRA] [P.L. 99-272] required the HHS Secretary to implement a revised area wage index. COBRA included a requirement that the HHS Secretary work with the Prospective Payment Assessment Commission [ProPAC] in studying and developing methods of adjusting wage indices to reflect hospital labor markets more accurately. One of the problems at which the legislation was aimed was the effects of regional variations in the mix of full- and part-time employees. The implementation of the revised index to correct this deficiency was considered favorable to rural hospitals, which typically employ a larger proportion of part-time workers than do large urban hospitals. However, the action taken did not correct another difference between large urban and small rural hospitals: small rural hospitals have a higher-than-average percentage of costs attributed to labor.

STEVE GUNDERSON
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Disproportionate Share Adjustment

Problem:

Hospitals under the prospective payment system [PPS] are eligible for a special payment adjustment if they provide services to a disproportionate share of low-income patients.

This adjustment does not address the adverse financial impact experienced by small rural hospitals that serve high volumes of Medicare patients at less-than-average cost.

Background:

The Consolidated Omnibus Budget Reconciliation Act [COBRA] of 1985 [P.L. 99-272] provided that additional payments will be made for discharges occurring on or after May 1, 1986, to PPS hospitals that serve a disproportionate share of low-income patients.

For urban PPS hospitals with 100 or more beds having a percentage of low-income patients of at least 15%, the Federal portion of the PPS payment is increased by 2.5% plus half the difference between 15% and the hospital's actual percentage of low-income patients, not to exceed 15%.

For urban hospitals with less than 100 beds having a percentage of low-income patients of at least 40%, the Federal portion of the PPS payment is increased by 5%.

For rural hospitals having a percentage of low-income patients of at least 45%, the Federal portion of the PPS payment is increased by 4%.

The percentage of low-income patients is defined as the hospital's total number of Medicare-covered inpatient days attributable to Medicare patients who are eligible for Federal Supplemental Security Income [SSI] benefits, divided by the total number of Medicare-covered patient days, plus the number of Medicaid-covered patient days divided by the hospital's total patient days.

Payments also are made to urban hospitals with 100 or more beds which demonstrate that more than 30% of their inpatient revenues are derived from state and local government payments for indigent care [excluding payments under Medicare and Medicaid].

The Sixth Omnibus Budget Reconciliation Act [SOBRA] of 1986 [P.L. 99-509] includes a provision permitting the HHS Secretary, effective with discharges occurring on or after October 1, 1986, to establish a separate threshold percentage of low-income patients required for rural hospitals to quality for disproportionate share payment adjustments. SOBRA would continue such payments to qualifying hospitals for one additional year in a budget neutral fashion.

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

MEMBER:
AGRICULTURE COMMITTEE
EDUCATION AND LABOR COMMITTEE

227 CANNON HOUSE OFFICE BUILDIN
WASHINGTON, DC 20515-4903
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Outliers

Problem:

The current method of distributing prospective payment system [PPS] outliers payments does not adequately take into consideration the needs of small and rural hospitals for several reasons because:

- o for all hospitals, outlier payments are not sufficient to cover the costs for unusually expensive cases, especially length-of-stay outliers. Funds designated for other payments do not appear to have been fully expended.

- o problems with the outlier payment methodology affect small and rural hospitals more adversely than urban hospitals because their size puts them at risk that even one outlier case may spell financial ruin to the hospital.

Background:

The Social Security Amendments of 1983 [P.L. 97-21], which established PPS, required that additional amounts known as "outlier payments" be paid to hospitals for atypical cases.

There are two types of such payments:

- o "cost outliers" for cases with extraordinarily high costs compared to most patients classified in the same diagnosis-related group [DRG].

- o "day outliers" for cases with extremely long lengths of stay.

The law requires that total outlier payments to all PPS hospitals be not less than 5% nor more than 6% of the total estimated Medicare PPS payments for each fiscal year.

The Consolidated Omnibus Budget Reconciliation Act [COBRA] of 1985 [P.L. 99-272] required the HHS Secretary to report to Congress not later than January 1, 1987, on the impact of outlier policies.

The Sixth Omnibus Budget Reconciliation Act [SOBRA] of 1986 [P.L. 99-509] included a provision effective October 1, 1986, establishing separate rural and urban set-asides for outlier payments. Thus, effective with discharges occurring on or after October 1, 1986, each national and regional standardized amount will be reduced for hospitals located in urban areas and for hospitals located in rural areas based on the estimated proportion of total DRG payments attributable to outlier payments for hospitals in urban areas and for hospitals in rural areas respectively. Instead of the uniform 5% reduction factor applying equally to all the standardized amounts, there are now two separate reduction factors, one applicable to the urban national and regional standardized amounts, and the applicable to the rural national and regional standardized amounts.

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1-800-472-6612
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Quality of Care

Problem:

Because of the size and limited staff capacity, small rural hospitals have unique problems in dealing with peer review requirements under present law.

Background:

Small rural hospitals have a variety of concerns in regard to quality review activities conducted by Peer Review Organizations [PROs]. Much of the review of small rural hospital cases occur off-site, away from the hospital setting. There is a need to better inform hospitals of the specific expectations for quality review activities. Quality review, based on statistical outcomes, emphasizes denials and sanctions with little priority given to assuring the quality of care rendered, patient outcomes, or evaluations of provider behavorial changes to avoid denials. Each PRO seems to have a different focus, and hospitals in difficulty with one PRO would be considered entirely satisfactory by another.

There also are problems with publication of certain quality-related program data, such as mortality statistics.

As an example, in small rural hospitals where a limited number of cases in a particular diagnosis-related group [DRG] are treated, a negative outcome in one or two cases may produce data showing a 100% or 50% mortality rate for group. Better reflection of small size consideration seems to be required.

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

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Swing-Beds

Problem:

Under current law, only hospitals with fifty beds or less may participate in the swing-bed program.

Background:

The swing-bed program was designed to provide a mechanism for alternating hospital beds between acute and long-term care use when access to nursing home or long-term care services in a patient's community is not available.

Under this program, when a patient cannot be discharged from the hospital to a nursing home or other appropriate setting, Medicare provides payments to the hospital at the Medicaid skilled nursing facility rate to continue care as a swing-bed patient. This means that patients are not forced to leave their communities to find nursing home care. This is important in rural areas where the only available nursing home capacity may be great distances from a patient's family and home.

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May 18, 1987

TO : THE HONORABLE HOWARD H. BAKER

FROM: REPRESENTATIVE STEVE GUNDERSON

RE : RURAL FUNDING INEQUITIES IN FEDERAL EMPLOYMENT TRAINING PROGRAMS

Inequities in the funding of Federal job training programs in rural areas do not necessarily result from the structure of the formulas themselves, but from inaccuracies inherent in national unemployment statistics on which the formulas are based.

FORMULAS USED UNDER THE JOB TRAINING PARTNERSHIP ACT (JTPA)

Titles II-A and II-B.
Programs for Disadvantaged Adults and Youth.

Both the Title II-A (the Basic Grant for Disadvantaged Adults and Youth) and Title II-B (the Summer Youth Employment Program) use an identical 3-part allocation formula for distribution of funds to the state and local levels -- which is 2/3 based on unemployment statistics:

A. 33 1/3 percent on the basis of the relative number of unemployed individuals residing in areas of substantial unemployment (an area with at least an average rate of unemployment of 6.5 percent for the previous 12 months).

B. 33 1/3 percent on the basis of the relative excess number of unemployed individuals (the number which represents the number of unemployed individuals in excess of 4.5 percent of the civilian labor force in the Service Delivery Area).

C. 33 1/3 percent on the basis of the relative number of economically disadvantaged individuals (individuals who receive a total family income [exclusive of unemployment compensation, child support, and welfare payments] which is not in excess of the higher of (i) the poverty level or (ii) 70 percent of the lower living standard income level).

Title III. The Dislocated Worker Program.

The Title III Dislocated Worker Program relies on a separate 3-part allocation formula to send money down to the states, which is based solely on unemployment statistics. The Title III

program formula does not drive monies down to the local level however, but this is left to the complete discretion of the Governor. The formula which drives Federal monies down to the States is based on the following:

A. 33 1/3 percent on the basis of the relative number of unemployed individuals who reside in each State as compared to the total number of unemployed individuals in all states.

B. 33 1/3 percent on the basis of the relative number of unemployed who reside in each State as compared to the total excess number of unemployed in all States (in excess of 4.5 percent of the civilian labor force in the State).

C. 33 1/3 percent on the basis of the relative number of unemployed for 15 weeks or more and which reside in each State as compared to the total number of such individuals in all the States.

INACCURACIES WITHIN NATIONAL UNEMPLOYMENT STATISTICS

Federal employment programs rely on the unemployment rate as an indicator of employment-related distress. But, the unemployment rate may not accurately reflect true market conditions. This is particularly true in rural areas.

Problems Measuring Unemployment in Rural Areas.

Limitations in the official BLS definition of employed and unemployed and a lack of adequate resources to conduct extensive sampling of the rural labor force result in a serious undercounting of rural unemployment.

The Current Population Survey (CPS) on which unemployment statistics are based, is most reliable in the production of national unemployment data and is statistically unreliable with respect to smaller states and local area data.

Measuring the true extent of unemployment in rural areas is difficult because of the composition of the rural labor force. For example, the rural labor market has a high number of self-employed individuals (including farmers) and individuals working for very small operations, who are usually ineligible for unemployment compensation. Also family members who work in family-owned businesses or farms, such as farm spouses and others who work the equivalent of a full-time job are not

eligible for unemployment insurance and are not represented in rural unemployment statistics when the farm or business folds. The primary basis for calculating local areas' unemployment statistics is the count of residents claiming unemployment insurance benefits under State law.

According to a 1985 GAO report, if the official unemployment rate is underreported by 1 to 3 percent, this may translate into a 7 to 21 percent reduction in JTPA funds for a rural area.

Problems in Defining Unemployment

Another complication is the fact that unemployment statistics which are used for the purposes of driving Federal funding do not take into account underemployment or employment inadequacy.

Discouraged workers (those out of work but no longer looking because jobs are not available), part-time employees (in part-time positions because they cannot find full-time jobs), and workers with earnings below poverty level are found disproportionately in rural areas.

In 1982, according to the Current Population Survey (CPS) it was estimated that 1/4 of the nonmetro labor force aged 18-64 was underemployed. If mismatched or "over-educated" individuals (those working in jobs significantly below their skills levels were included) this number rose to 40%. The unemployment rate was 10% for rural areas in contrast.

The Bureau of Labor Statistics (BLS) calculates seven rates of unemployment, one of which (U-7) includes data on discouraged and part-time workers. However, the rate most often used, and on which funding formulas are based is the U-5b rate or the "official unemployment rate," which excludes these groups. Failure to include data on the underemployed may seriously understate the true level of unemployment, particularly in rural America.

Interdepartmental Task Force on Rural Communities

This memorandum provides Labor Branch comments on the issues raised in the letters from Congressman Gunderson to Howard Baker. We have not included comments from the Department of Labor (DOL) since their representative on the Task Force can speak for them and we understand they have received copies of these letters.

Congressman Gunderson raises two issues regarding a perceived urban versus rural bias in federal data used for formula funding programs that involve DOL agencies and programs. The first addresses their use in allocating resources in the training and employment programs authorized by the Job Training Partnership Act (JTPA) and administered by the Employment and Training Administration and the other is on data used for allocating resources in federal formula programs, much of which is complied by the Bureau of Labor Statistics.

Training and Employment Programs

In his May 18 letter, Congressman Gunderson suggests that the problems in formula funding may not always be in the formula itself but in the data used in the formula. The Administration has taken a comprehensive look at the allocation formulas in the JTPA to determine if the formulas themselves (and the data used) are the best possible for directing resources to areas with the greatest need or largest proportion of the target group.

One principal example is in the Summer Youth Employment and Training Program. As the congressman notes, it is a three-part formula relying heavily on unemployment data. For several reasons this has been determined to be inappropriate for a program that has as its target group economically disadvantaged youth between the ages of 14 and 21. These reasons include the fact that the unemployment data are dominated by adult worker unemployment experience and the finding that there is very little overlap between economic disadvantaged status of youth and

unemployed status. As a result the Administration has proposed in the FY 1988 budget to reform the Summer Youth program in several ways including revising the allocation formula to allocate financing based one-half on a State's share of the economically disadvantaged youth population and one-half on the share of welfare families. The goal, of course, is to direct resources to areas with the most need of assistance. The result, it appears, may be to direct more resources to urban areas where there is a higher absolute number and concentration of low-income youth.

The Administration is also examining the formulas for allocating resources under the JTPA title II-A Block Grant and title III program for dislocated workers. Similar questions to those noted above for the Summer Youth program are being assessed in the Block Grant, while new data sources are being explored for allocating financing under the Administration's proposal to replace the JTPA title III program of assistance to dislocated workers. In all cases, we are interested in using the best data available at the most reasonable cost that will allocate resources to the areas with the highest number of elegible individuals so that we make the most effective use of the taxpayer dollar.

Bureau of Labor Statistics Data

In his May 18 letter, Congressman Gunderson states that Federal employment programs rely on the unemployment rate as an indicator of employment-related distress. However, he believes the data do not accurately reflect the true local market conditions in rural areas. He cites a number of reasons for the perceived inaccuracy, including definitions of employed and unemployed, inadequate sampling (and financing for adequate surveys), and rural labor force composition, but stops short of recommending changes in the way the Bureau of Labor Statistics (BLS) in the Labor Department calculates unemployment rates. The Administration addressed these issues early in the 1980's.

The definition of unemployment was considered at length by the National Commission on Employment and Unemployment Statistics (the Levitan Commission) which recommended continuing, with some improvements, the way the BLS calculates unemployment rates. The Administration generally accepted the recommendation in 1981. The National Commission's strong recommendation that the BLS not try to collect sufficient data in the monthly survey to furnish sub-state unemployment rates was also accepted by the Administration. The size of the sample required to provide statistically acceptable unemployment rates at the substate level is prohibitive both technically and in terms of cost. It should be noted that the current sample can provide monthly data only for the 10 largest states.

Last year the House Government Operations Committee held oversight hearings on problems with the "official" unemployment rate. Undercounting the unemployed in rural areas was one of the subjects covered. BLS Commisioner Janet Norwood noted that the system is designed to produce high quality national and state unemployment rates and that rates for smaller areas from the same data are subject to error. She agreed that measuring rural employment is truly difficult, especially for areas smaller than states.

For the foreseeable future, therefore, we must continue to rely on unemployment estimates derived from unemployment insurance claims data for local areas. BLS has developed an extensive methodology for deriving these estimates, but it is recognized that its validity cannot be assured.

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

MEMBER:
AGRICULTURE COMMITTEE
EDUCATION AND LABOR
COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515-4903

227 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-4903
202-225-5506

DISTRICT OFFICE:
P.O. BOX 247
438 NORTH WATER STREET
BLACK RIVER FALLS, WI 54615-0247
1-800-472-6612
715-284-7431

MEMO 5/18/87

TO: The Honorable Howard H. Baker, Jr.

FROM: Steve Gunderson, M.C.
Jim Lightfoot, M.C.

RE: Public Works & Transportation Programs

PUBLIC TRANSIT

Rural areas lose significantly in the public transit area. Consider the following figures:

1) Rural and small urban areas combined represent 49 percent of the nation's population and receive only 10 percent of total federal public transit funds.

2) Rural areas account for 39 percent of the population and receive less than 3 percent of total federal public transit funds.

3) Large urban areas account for 51 percent of the population and receive 90 percent of the total federal public transit funds.

-- As a result of bus deregulation, thousands of rural communities have lost or will lose intercity commercial bus service.

-- Also, the primary beneficiaries of rural public transit are the elderly and handicapped, as opposed to those who use urban transportation systems like the Washington Metro which primarily serve higher-income users who can afford to bear a greater share of the cost of providing the service.

The Administration should make a special effort to channel more discretionary public transit funds to address the needs of rural areas.

PUBLIC WORKS RURAL BIAS

-- The Water Resources Development Act (P.L.99-662) authorized a study of the Army Corps of Engineers project evaluation and selection criteria specifically to determine any bias in the treatment of rural and low-income areas. That study must be funded in order for us to determine the necessary changes

in the selection criteria to eliminate bias against public works projects in rural areas.

This study's authorization was motivated by the concern that there is a built in bias against rural areas in the Army's cost benefit formula for determining flood control and other projects. With your interest and assistance, the study will be funded and concluded in a timely manner, and action can be taken to more equitably address the public works needs of rural and/or low-income areas.

AIRPORTS AND AIRWAYS

Rural communities are finding adequate air service increasingly important to their economic development efforts. Rural communities are primarily served by general aviation and some small commercial service airports.

An unintended consequence of deregulation has been a decrease in the quality and quantity of airline service to rural areas. With airline service to non-major airports decreasing, the Administration should be aware of this problem and reconsider its opposition to the Essential Air Service Program. Currently, the air service of more than 500 rural communities is protected by the program, with about 150 communities actually receiving a subsidy. Continuation of the program can be one step in helping assure that rural areas do not suffer further from deregulation.

-- In 1985, only 17 percent of the 2440 general aviation airports in the National Plan of Integrated Airport Systems received funding. This is not necessarily the result of an extreme bias in the formula, since it is recognized that the entire system is badly in need of increased capacity across the board. Nonetheless, the general aviation airport improvement grant applications far exceed the FAA's ability to fund them.

The Administration should abandon its policy of keeping the Aviation Trust Fund under the unified budget. The surplus in the Aviation Trust Fund in FY 1987 is projected to reach $5.6 billion. By freeing this surplus for its intended purpose, the needs of rural areas could be better addressed.

OMB's Preliminary Comments

Public Transit

The arguments used by Congressman Gunderson contain statistics on population. A more important statistic is that rural areas now account for less than three percent of transit ridership and received over three percent of the formula funds in 1987 due to a special set aside in the appropriation and transfers by States of small urbanized area funds to rural areas. Large urbanized areas account for 94 percent of the ridership and receive about 88 percent of the formula funds.

The Administration has been making a special effort to channel both funds and energy to address the needs of rural areas. The Administration's legislative proposal to reauthorize the transit program included a special set-aside for rural areas above the formula share, recognizing their specific needs.

Rural areas also receive special treatment since, unlike urban areas, they have no cap on the amount of their formula grant funds which can be spent on operating expenses. Large urban areas receive less than 10 percent of their operating expenses from Federal funds. Washington Metro, for example, receives about four percent of operating expenses from Federal funds. Small urban areas and rural areas are estimated to receive about a 25 percent subsidy for operating costs from Federal funds.

The Department of Transportation is now managing a new technical assistance resource for rural areas called the Rural Technical Assistance Program. This program provides transit research, training, technical assistance and related support services to assist transit operators in non urbanized areas.

In addition, the Urban Mass Transportation Administration has been meeting with the Office of Transportation, USDA, and the United Bus Owners of America to discuss the effects of bus deregulation on small communities and expect to hold a joint conference in the fall on this issue.

Airports and Airways

Essential Air Service (EAS)

Since airline deregulation in 1978, the number of airlines providing scheduled airline service has increased from 34 to 125. The number of competitive markets increased from 1,126 to 1,834. Increased competition has led larger air carriers to affiliate with regional carriers. These marketing alliances are delivering higher quality services, including frequent flyer programs, on-line services, integration of schedules, lower joint fares, and better access to foreign markets to small and medium size communities. Currently, 45 of the 50 largest regional carriers, which collectively fly more than 80 percent of the passengers carried by regional carriers, have entered into marketing agreements with major carriers.

Industry competiton, spurred by deregulation, has caused a decline in fares to markets of all sizes. Although the decline is more pronounced in major markets (17 percent), even in the smallest markets, real fares have declined an average of seven percent. However, lower density markets have traditionally had fewer fare and service options available because they have a smaller base of consumers.

A recent Dept of Transportation (DOT) study found that economic development benefits from scheduled airline service in small communities are small. The study found no evidence that the existence of scheduled service at small airports had an effect on location decisions of businesses. Even in cases where the existence of an airport is important for private business access, the airport may place well down on a list of other factors such as proximity to markets, availability of raw materials, labor, tax treatment, etc.

Other studies that have been done are dated and inconclusive, but generally find that the existence of scheduled air service to small commumities does not contribute in a significant way to economic development in those communities.

Spending for the Essential Air Service (EAS) program is excessive when compared to the benefits. The total number of people benefitting from the program is extremely small, averaging about 850 enplanements per day excluding Alaska. Yet, the general taxpayer contributes $25 million or about $44 per passenger per year to the EAS program.

In one of the 102 communities in the EAS program, the subsidy exceeds $500 per passenger, and that community is only 39 miles from a hub airport. For 19 communities, the subsidy per passenger is more than twice the fare.

Because the subsidy requirements are excessive for the

OMB's Preliminary Comments

Public Works Rural Bias (response to attached information request)

- The Water Resources Development Act (P.L. 99-662) authorized seven "national" studies to be conducted by the Corps of Engineers. One of these studies was to determine if the Corps' planning procedures for flood control projects were biased against rural areas or areas with low incomes (section 719), with a report addressing the need for changes to the planning procedures due to Congress one year after enactment of the bill.

- The perception that the planning procedures contain a "rural bias" is based on procedures for developing the benefit estimates for flood control projects. Benefits are estimated from property/structure values that are generally lower in rural and low-income areas, thereby making it more difficult to generate flood damage reduction benefits for projects affecting such areas. With low property values, it is more difficult to demonstrate that the benefits of a flood control project to protect rural and low income areas will exceed the project's costs.

- Army and Corps staff do not believe that the "rural bias" claim has merit. Army staff indicate that Administration/process discriminates in favor of economic projects, irrespective of location or income. A study of 85 recent Corps contruction starts showed that 13 were in rural areas and that 53 had rural benefits.

- No funds have been reprogrammed in 1987, and no funds are included in the President's 1988 budget to conduct any of these national studies. However, Army did allow the Corps to inform Congress during 1988 budget appropriations hearings that they had capability to study four of the authorized studies, including the "rural bias" study. The Corps has indicated it could use $300K in 1988 to conduct this study.

- To date, Assistant Secretary Doyle has not addressed the issue. However, Army and Corps staff intend to recommend to Assistant Secretary Doyle that the Corps not conduct the study unless specifically directed to by Congress and if a study is required, that the study be in the form of a letter report explaining the planning process and procedures.

number of passengers being accomodated, and the system is now capable of responding to demand for service without Federal Government intervention, the EAS program should be terminated.

However, the program enjoys strong congressional support and is expected to be reauthorized for another 10 years before it expires in October 1988, possibly as an amendment to the Federal Aviation Administration (FAA) reauthorization currently being considered by Congress.

Airport Grants

Of the total 3,243 airports contained in the National Plan of Integrated Airport Systems (airports eligible for Federal grants), there are 550 Commercial Service Airports and 2,449 General Aviation airports. The Commercial Service airports account for 99 percent of enplanements but receive only 71 percent of the airport grants. General Aviation airports, accounting for only one percent of passenger enplanements, receive 29 percent of the Federal grant funds, with the smallest of these receiving 17 percent of the grant funds.

The grant program is entirely funded by the Aviation Trust Fund, which, in turn, is funded primarily by an eight percent ticket tax on commercial airline tickets. About 90% of user fees paid into the Airport and Airway Trust Fund came from the ticket tax. Therefore, the General Aviation airports are receiving a heavy cross-subsidy from passengers using Commercial Service airports.

The needs of rural airports could be better addressed not by taking the Aviation Trust Fund off of the unified budget, but by charging General Aviation users a larger share of the costs they incur at General Aviation airports.

Typically, a General Aviation user pays a tie-down fee, a gasoline flowage fee, and landing fees to an airport. Only one-third of the nation's airports have some sort of charge for non-commercial aircraft, with those airports tending to be the larger airports. Tie-down fees average about $2 per day. Fuel flowage fees average $.03 per gallon, and landing fees amount to about $5 per landing. Therefore, the typical General Aviation user contributes between $300-$700 per year for use of the entire national airspace system including the airports.

General Aviation users have been very reluctant to pay their share of the costs of operating and developing the airport and airway system. Fees collected are normally less than the amounts spent on airport grants to general aviation airports, disregarding the costs of operating facilities devoted almost solely to serving general aviation such as flight service stations and low activity towers. It has been the policy of this

Administration to recover through user fees the costs attributable to identifiable segments of the population that require unique benefits from government services. It is difficult to expand this government grant program when there is an unwillingness to pay.

WORKING GROUP ON RURAL COMMUNITIES
Participants List
June 26, 1987

Peter Myers	USDA	447-6158
La Verne Ausman	USDA	447-5277
Jim Warner	White House/OPD	456-6252
Alan Tracy	White House	456-2315
Susan Lauffer	White House/IGA	456-7943
Bob Dawson	OMB	395-4844
Dave Gibbons	OMB	395-4586
Marilee Melvin	Justice	633-4894
Sandy Batten	Treasury	343-0241
Berndt Schine	Energy	586-5544
Darry C'Armine	Education	732-2251
Winnie Pizzano	ARC	673-7856
Jim Giltmier	TVA	245-0101
Bob Helms	HHS	245-1858
Aline Quester	CEA	395-4597
Duncan MacRae	HUD	755-5600
Matt Scocozza	DOT	366-4544
Orson Swindle	EDA	377-5081
Mike Baroody	DOL	523-6181

THE WHITE HOUSE

WASHINGTON

6/11/87

MEMBERSHIP OF THE WORKING GROUP ON RURAL COMMUNITIES

Chairman:	Peter Myers (Kelly Winkler) Deputy Secretary U.S. Department of Agriculture Room 200, Administration Building 14th Street and Jefferson Drive, S.W. Washington, D.C. 20250 447-6158
Executive Secretary:	Alan T. Tracy Special Assistant to the President For Agricultural Trade and Food Assistance Room 216 Old Executive Office Building The White House Washington, D.C. 20500 456-2315
OMB:	Robert Dawson Associate Director, Natural Resources, Energy and Science Office of Management and Budget Room 260 Old Executive Office Building The White House Washington, D.C. 20500 395-4844
EOP:	Judy Black Special Assistant to the President for Intergovernmental Affairs Room 116 Old Executive Office Building The White House Washington, D.C. 20500 456-2771
OPD:	James H. Warner Office of Policy Development Room 227 Old Executive Office Building The White House Washington, D.C. 20500 456-6252

Agriculture:	La Verne Ausman Acting Under Secretary for Small Community and Rural Development Room 219A, Administration Building U.S. Department of Agriculture 12th Street and Jefferson Drive, S.W. Washington, D.C. 20250 447-4256
Commerce:	Hon. G. Orson Swindle III (William Dohr) Assistant Secretary for Economic Development Room 7800B, Herbert C. Hoover Building 14th Street and Constitution Avenue, N.W. Washington, D.C. 20230 377-5081
Energy:	Berndt Schine Director of Intergovernmental Affairs Department of Energy 1000 Independence Avenue, S.W. Room 8G026 Washington, D.C. 20585 586-5544
Health & Human Svcs:	Dr. Robert Helms Assistant Secretary for Planning and Evaluation Department of Health & Human Services Room 415F 200 Independence Avenue, S.W. Washington, D.C. 20201 245-1858
Housing & Urban Dev.:	Dr. June Koch Assistant Secretary for Policy Development and Research Department of Housing and Urban Development Room 8100, HUD Building 451 7th Street, S.W. Washington, D.C. 20410 755-5600
Interior:	J. Steven Griles Asst. Secretary for Land and Mineral Management Department of Interior Room 6608 C Street between 18th and 19th Streets, N.W. Washington, D.C. 20240 343-5676

Education: John G. Pucciano
Acting Assistant Secretary for Vocational and Adult Education
Room 627, Reporters Building
300 7th Street, N.W.
Washington, D.C. 20202
732-2251

Labor: Dallas Batten
Assistant Secretary for Policy
Department of Labor
Room S2006, Frances Perkins Building
200 Constitution Avenue, N.W.
Washington, D.C. 20210
523-6181

Justice: Stephen Galebach
Senior Special Assistant to Attorney General for Cabinet Affairs
Room 5133, Main Justice
Washington, D.C. 20530
633-2107

Treasury: Michael R. Darby
Assistant Secretary for Economic Policy
Department of the Treasury
Main Treasury, Room 3454
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220
566-2551

Transportation: Matt Scocozza
Assistant Secretary for Policy and International Affairs
Room 10228, Nassif Building
400 7th Street, S.W.
Washington, D.C. 20590
366-4544

Independent Agencies

Appalachian Regional Commission

Winifred Pizzano
Fed Co-Chairman
Appalachian Regional Commission
Room 711
1666 Connecticut Avenue, N.W.
Washington, D.C. 20235
673-7856

Small Business Admin.: Mr. Leslie Mehlhoff
Chief of Staff
Small Business Administration
Room 1000, Imperial Building
1441 L Street, N.W.
Washington, D.C. 20416
653-6431

Veteran's Admin.: Thomas E. Harvey
Deputy Administrator
Veteran's Administration
810 Vermont Avenue, N.W.
Washington, D.C. 20420
233-5428

TVA: Billy J. Bond
Office Manager
Office of Natural Resources and Economic Development
Tennessee Valley Authority
1E61 Old City Hall Building
Knoxville, TN 37902
615-632-6367

United States Department of Agriculture

Office of Governmental and Public Affairs

Washington, D.C. 20250

ENTERPRISE ZONES:

ASSISTANCE FOR RURAL COMMUNITIES

BACKGROUND

In view of the state of rural economies, State governments are searching for new opportunities to improve economic conditions. Interest has grown in what is happening to the rural community as well as what is happening on the farms. Recognizing the need to bolster distressed rural communities, State governments in recent months, have been looking for new initiatives they can adopt that will result in a new economic life for these distressed areas. They're looking for ways to encourage businesses to expand or locate in rural areas and bring jobs into job-scarce communities. State-designated enterprise zones have been helping in the rebirth of urban and non-urban areas for the past four years. State enterprise zones are a viable option that should be examined/re-examined for applicability to rural areas.

The concept of enterprise zones has been growing steadily since 1982, but more often than not, when enterprise zones are mentioned, they are thought of in association with urban areas. While it is evident that many zones are located in metro areas, they need not be confined to heavily populated areas. As States craft legislation authorizing enterprise zones and set out to design incentives and eligibility requirements, consideration should be given to creating a final product which will also be beneficial to rural areas. Over the past 4 years, we have gone from having no States with enterprise zones to 30 States with legislated programs and 1 with an administrative program. (See Attachment 1 for a list of States with enterprise zones and the number of zones designated.) Two of those States, Colorado and Kentucky have specific requirements for rural enterprise zones.1

Enterprise zones have developed as one of the hottest new tools for breathing life into depressed and decaying areas. They have been described in business magazines as the new "glitter concept" for business and industry. Enterprise zones are designed in various ways, but are principally to provide special assistance to encourage business to invest and to encourage job creation and economic revitalization in the areas. In drafting state incentives, an important consideration has been to identify the State incentives, both tax and non-tax, which, in combination with other supporting activities, will encourage business to invest in these areas.

STATE EXPERIENCE VARIES WIDELY

The approach of the States varies widely. Some States use Enterprise Zone designation as part of an industrial development strategy, others use it for commercial development. Some focus on job creation, others on job retention. In all cases, States have crafted the specific incentives to reflect the approach of the particular State to economic and community development as well as the relationship of the State to local government.

This information has been prepared by the Office of Intergovernmental Affairs. For further information, please call 202/447-6643, or FTS 447-6643.

When thinking about enterprise zones, States should remember that the enterprise zone approach works not only in urban centers but also in small towns. Some of the incentives which have generated considerable business and employment activity include: Property, sales, motor usage, or inventory tax exemption; fixed asset or working capital loan pools; loan guarantees; and credits for hiring new employees, for day care, for training, and for capital investment. Not only are the majority of the 1,400-plus State-designated enterprise zones in communities under 50,000 in population, but most of the businesses active in those zones are small businesses.

ENTERPRISE ZONES OFFER INVESTMENT OPPORTUNITIES

Statistics on the success of enterprise zones are impressive. The May 1986 edition of Business Facilities magazine says their studies show that 81,500 new jobs have been created in enterprise zones. In addition, there have been 51,800 retained jobs, and a total jobs impact of 133,300. The studies also show "...that the total investment in State enterprise zones has hit the $6.6 billion mark...Florida is apparently the new job creation leader at this point, with the State's enterprise zones having been responsible for something like 18,100+ new positions. Other leaders include Louisiana (12,000), New Jersey (7,500), Arkansas (nearly 6,600), and Indiana (6,000). Minnesota is the leader in retaining existing jobs, with nearly 9,500; Louisiana is next with almost 6,400.

"Ohio and Kansas are apparently co-leaders in total investment generated, with both estimating $1.3 billion. Other leaders include Illinois ($977.9 million), Louisiana ($714.3 million), New Jersey ($469 million), and Arkansas ($452 million)."2

It might be worth mentioning here that another tool being used successfully in conjunction with enterprise zones is small business incubators. An incubator is a facility, such as an old school, abandoned warehouse, or other underused property, that can be rehabilitated to encourage entrepreneurial activity. When combined with other economic development tools, such as enterprise zones, incubators can foster new enterprises, create jobs, diversify the tax base and develop indigenous entrepreneurial talent and technology.

Also, in many instances a linkage is developing between job training programs and the jobs being provided in the state enterprise zones. The Job Training Partnership Act has been used to provide jobs in support of State-sponsored enterprise zones. Both of these tools -- incubators and job training programs -- have been beneficial in strengthening the enterprise zone concept.

Enterprise zones may not be the answer for all States, but certainly the concept is worthy of review, especially if small towns/rural areas are taken into consideration in an overall program. The following examples show how three different States molded incentives and eligibility requirements in such

a way as to allow three different sizes of small towns to qualify for zone designations:

EXAMPLES FROM THE STATES

MISSOURI

State Eligibility Requirements: Only 28 zones are authorized and designation is competitive. Each area must have an unemployment rate at least 1.5 times the State rate, and at least 65 percent of its people earning less that 80 percent of the State median family income.

State Enterprise Zone Incentives: Businesses with a work force consisting of at least 30 percent zone residents or workers considered unemployable are eligible to receive:

- o Investment tax credit of 10 percent of the first $10,000 in investment, 5 percent of the next $90,000, and 2 percent of the remaining qualifying investment.
- o $1,200 tax credit for each employee hired.
- o $400 training credit for each new employee that is a zone resident or considered "unemployable."
- o Up to half of the Missouri taxable income earned by a business in a zone is exempt from State income tax for up to 15 years if 30 percent of a zone business' employees reside in the zone or are considered "unemployable."
- o A minimum of 50 percent local abatement of ad valorem taxes for at least 10 years on the cost of improvements to real property.

Credits are refundable up to a maximum of $75,000.

State-Wide Results: State officials estimate the zones have generated $110 million in investment and 3,000 jobs since the program began in 1983.

Other State Incentives:

- o Tax Incentives: Anywhere in the State a new company can receive, each year for 10 years, a $75 tax credit for each job created and a $75 credit for every $100,000 of new investment.
- o Industrial Revenue Bonds: Local industrial development authorities can apply to issue tax-exempt revenue bonds subject to a $745 million Statewide cap. The bonds are bought by local banks and the money is then lent to designated industries, often at below-market interest rates. The states' ability to use the tax-exempt bonds may end in 1988.
- o Block Grants: Direct grants are made to cities for infrastructure development. The cities use State development action grants to loan money to industry to finance new equipment and plant expansion. The interest rates on the loans range from 5-10 percent with about a

20-year repayment period. When the money is repaid, the city can relend it. In 1985, infrastructure grants totaled $5 million, and the action grants totaled $3 million.

EXAMPLE: Cuba, Missouri; Population: 2,100

In 1982-83, the Durbin-Durco Corporation, a steel fabricator, and the Convy Shoe Company had shut down, causing the loss of 185 jobs. In 1984, a new mayor, determined to rebuild Cuba, was elected. Through boundary manipulation, the small town in 1985 became the State's smallest enterprise zone. From January-November 1985, Cuba received $1.6 million in State grants to attract new industry, to help existing companies refurbish and to provide necessary improvements in public services. In addition, under State authority, the Industrial Development Board issues $1.2 million industrial revenue bonds to make low-interest loans to companies willing to create more jobs locally.

In February, the Mid-America Shoe Company, which had shut down in December, reopened as Whistles Incorporated. The city received a State development action grant of $119,000 and lent it to Whistles at a 7 percent interest rate to enable the company to purchase new equipment. A group of concerned local business executives bought the company's building and agreed to lease it back for a nominal sum. The new management, with the agreement of the union, began importing 30 percent of its components from Brazil, trying to beat importers at their own game.

In November, the Bailey Corporation, maker of rubber window channel and weather stripping for automobiles, bought the Durbin-Durco facility in Cuba. The development board issued a $675,000 industrial revenue bond to enable Bailey to buy the building, and the city offered the company low-cost electricity, which will save Bailey about $100,000 over the next five years.

With money from a State urban development grant, the city lent the company $400,000 to buy new machinery and recondition the plant, and the city also obtained a $500,000 block grant from the State to improve sewer, water and electrical lines to the Bailey plant site. The city and county will rebate $40,000-$50,000 in local taxes to the company over the next decade. And for each employee hired, Bailey will receive up to a $1,200 tax credit for training.

KENTUCKY

State Eligibility Requirements:

- Areas of pervasive poverty, unemployment, and economic distress;
- Decrease in population;
- A continuous boundary;
- Local government participation.

State Enterprise Zone Incentives:

- Exemption from State income tax on the gain from the sale of qualified property.

- o Exemption from State tax on interest earned from loans to qualified businesses.

- o Exemption from sales and use tax on building materials, and on equipment and machniery which a qualified business purchases for use in the zone.

- o Exemption from motor vehicle usage tax on vehicles used by qualified businesses in the zone.

- o State net operating losses may be carried forward by qualified businesses for the life of the zone.

- o Neighborhood Enterprise Associations with zone residents as members can lease for a least 99 years, at no more than $1, any State and local property not in use.

State-Wide Results: In the first year of zone designation, expansions yielded 107 new jobs, 70 percent of them going to unemployed persons and public assistance recipients.

EXAMPLE: Hickman, Kentucky; Population: 3,000.

Location: Small rural community located on the Mississippi River in far western Kentucky.

The 1980 census showed that Hickman continued to lose population, particularly its young people, due to the lack of job opportunities in the area. In 1983, the State awarded Hickman a zone designation, not only because of the need existing in the area but also because of the show of community organization and determination. Hickman offered special natural gas rates for businesses, and agreed to reduce the city's real estate and tangible property ad valorem tax rates to one mill per $100 of assessment for qualifying businesses.

Hickman purchased and restored 51.7 miles of railroad track linking the town to the main line in Dyersburg, Tennessee. The rail spur has significant value for Sigri Carbon Company, the city's major industrial employer. The $2 million project, headed by the Hickman River City Development Corporation, required assistance from the Kentucky Commerce Cabinet (State community develpment block grants), the State Department of Transportation, and the Tennessee Valley Authority (TVA). The Tennken Railroad made necessary track improvements before the sale. Now the Hickman's rail line operates in the black.

To date, 24 small businesses have expanded or located in the Hickman Enterprise Zone, creating or saving 200 plus jobs. Ash-Tex, a new plant specializing in textile finishing expects to hire 200 employees between January 1986 and mid-1987. In order to sell other businesses on Hickman, the city has developed a video to market its enterprise zone and port facilities.

MINNESOTA

State Eligibility Requirements:

- o Less than 400 acres and a continuous boundary.

- o Market value of taxable property less than $100,000 per acre, or $300,000 if area is in a first class city.
- o Located in an economic hardship area established by meeting two criteria:
  - 15 percent of housing units substandard;
  - 20 percent of households below the poverty level;
  - Market value decline or 3 percent growth lag of commercial and industrial property over the preceding three years;
  - Nonfarm per capita income 90 percent or less of State or MSA median;
  - Unemployment at least 120 percent of Statewide annual average or decline in employment positions of at least 10 percent.
- o 4,000 population in MSAs or 2,500 outside MSAs and no population requirement for areas on Indian reservations.

State Enterprise Zone Incentives: The total value of incentives is limited to $22 million for competitive zones and $10 million for border zones over the 7 year period, distributed to each zone on a per capita basis. Localities have discretion to use a mix of incentives.

Competitive zone incentives:

- o Sales tax exemption on construction materials or equipment purchased for use in the zone.
- o Up to $3,000 income tax credit annually per new employee, other than construction workers.
- o Income tax credit for a percentage of the cost of debt financing to construct new facilities in the zone.
- o State-paid property tax credit for a portion of property taxes paid by a new commercial or industrial facility or additional property taxes paid by an expansion of an existing commercial or industrial facility in the zone.
- o Technical assistance.

Additional incentives in Border Zones:

- o Up to $1,500 income tax credit per existing worker employed in the zone.
- o State-paid property tax credit for a portion of property taxes paid by existing commercial or industrial facilities located in the zone.

EXAMPLE: Thief River Falls, Minnesota; Population: 9,000.

Location: Sixty miles south of the Canadian border in northwest Minnesota. Has a regional airport but no interstate highway access and is 300 miles from the major metropolitan area of Minneapolis-St. Paul.

In 1981, Arctic Cat Snowmobile plant, the primary area employer, closed its doors and eliminated 1,800 jobs. With a substantial part of the work force

out of work, sales dropped in the service industry, and many families moved out, resulting in high residential vacancy rates and empty mobile home pads.

The town used the Minnesota Small Cities Block Grant program to create a $5 million revolving fund in 1982 to provide loans to open new businesses. These funds came from the Federal Community Development Block Grant (CDBG) program, supplemented by Minnesota State funds. In 1983, the town was designated an enterprise zone area.

Because of the town's limited tax base, it did not offer property tax reductions. Nor did it offer automatic eligibility to each firm every year. Each application has to be reviewed by a special local advisory committee composed of local experts. Likewise, the locality does not automatically grant refundability of tax credits, although it is permitted to do so by State law.

The community used existing grants and employee training programs available to other communities in the State, in addition to the enterprise zone incentives, to revitalize industry and reduce unemployment. It has put $200,000 of its CDBG funds into infrastructure grants in the zone.

The local strategy was to conserve what they have rather than compete with Minneapolis for high-tech industries. Reopening the closed snowmobile plant under new ownership and management became the key outgrowth of the strategy. This created 240 new part-time jobs and 58 full-time jobs, and an investment of $3.5 million in plant and equipment. To make this feasible, the firm received over $200,000 in tax incentives, and $325,000 in revolving fund loans. Also critical were the availability of local investors, a trained work force which had experience in the prior plant, and the existence of vacant plant and equipment. Other firms have also been attracted to the residual space from the old snowmobile plant.

One innovative new enterprise which took advantage of a State grant for $300,000, as well as the tax incentives and manpower training funds, was Future Fuels, which produces fuel pellets from recycled garbage, using state-of-the-art technology. Several firms in the zone are related to the food industry, which is important to the local economy: Land O'Lakes expanded its turkey processing plant in the zones; Uncle Ben's built an experimental rice drying plant there; and Forsbergs, which makes separating equipment for food and non-food applications, expanded in the zone.

It should be noted that participating business people indicate that the combination of tax incentives, grants, and loans had a bearing on their decision to locate or expand in Thief River Falls. Other reasons were also cited, such as ties to the local area, the availability of the vacant industrial plant and a trained work force.

Zone Results: Since the zone was created, over 500 full-time and part-time jobs have been created or saved. If a liberal definition of saved jobs is applied, the estimate rises to 800. Fourteen firms expanding or starting up within the zone have made or committed almost $7 million in investment. Three small firms have closed in the zone since it has been designated.

CONCLUSION: ENTERPRISE ZONES AS AID TO RURAL AREAS

In conclusion, enterprise zones, in many cases, are an excellent tool in aiding economically distressed areas, whether urban or rural. It appears, however, that for enterprise zones to be successful, it takes considerable commitment by states and local communities. States, especially with depressed rural areas, which are in the process of creating zones or drafting legislation authorizing them, should remember that enterprise zones need not apply solely to urban areas. By creating a program which includes rural areas, a total program can be developed that will provide assistance to some of the harder hit areas of the State. States need not wait for Federal legislation to be passed before taking the initiative and helping themselves.

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1. Background information and specific state examples provided by the U.S. Department of Housing and Urban Development.

2. Business Facilities. Eric Peterson, Dora Hatras and Alison Hayes, "The Numbers Game: Enterprise Zones Under the Business Facilities Microscope," May 1986, Volume 19, Number 5, page 28. Information reprinted with permission of the authors.

ATTACHMENT 1

STATUS OF STATE ENTERPRISE ZONE LEGISLATION

	States With Legislation Enacted	No. of Zones	No. of Jurisdictions
1.	Alabama	1	1
2.	Arkansas	>252	>107
3.	California	13	23
4.	Colorado(1)	0	0
5.	Connecticut	6	6
6.	Deleware	48	4
7.	Florida	136	72
8.	Georgia(2)	3	1
9.	Illinois	32	42
10.	Hawaii	0	0
11.	Indiana	10	10
12.	Kansas	108	108
13.	Kentucky	7	7
14.	Louisiana	>650	>107
15.	Maryland	11	13
16.	Michigan(3)	1	1
17.	Minnesota	16	24
18.	Mississippi	15	15
19.	Missouri	28	44
20.	Nevada	2	2
21.	New Jersey	10	5
22.	New York	0	0
23.	Ohio	25	34
24.	Oklahoma	14	14
25.	Oregon	10	12
26.	Rhode Island(4)	0	0
27.	Tennessee	0	0
28.	Texas	0	0
29.	Vermont	0	0
30.	Virginia	12	14
	States with Administrative EZ Program		
31.	Pennsylvania	15	14
	Total	1,425	687

1. Some states with 0 zones are new programs which have not yet designated zones.

2. Georgia legislation authorizes Enterprise Zones in Atlanta only.

3. Michigan legislature authorizes a pilot Enterprise Zone in Benton Harbor.

4. Rhode Island legislation becomes effective upon enactment of Federal legislation.

7/8/86

ATTACHMENT 2

ENTERPRISE ZONE STATE CONTACTS

ALABAMA
William Wallace
Dept. of Economic and
Community Affairs
202/284-8777 or 8770

ARKANSAS
Oscar Rodrigues
Arkansas Industrial Development
Commission
501/371-7778

CALIFORNIA
Richard Whitman
Dept. of Commerce
916/324-8211

CONNECTICUT
Carol Gaetjen
Dept. of Economic Development
203/566-3322

DELEWARE
Dorothy Sbriglia
Deleware Development Office
302/736-4271
800/441-8846

FLORIDA
Lee Anne Barron
Dept. of Community Affairs
904/487-3644

GEORGIA
Alton Moultrie
Georgia Dept. of Community
Affairs
404/656-3836

ILLINOIS
Patrick O'Grady
Dept. of Commerce and
Community Affairs
217/785-6128 or

Marcia Buettgen
Dept. of Commerce and
Community Affairs
312/917-4075

INDIANA
Diane C. Lupke
Indiana Department of Commerce
317/232-8786

KANSAS
Nancy McCabe
Dept. of Ecomonic Development
913/296-3485

KENTUCKY
Sara Bell
Dept. of Economic Development
502/564-7140

LOUISIANA
Diane Barksdale
Louisiana Dept. of Commerce
504/342-5399

MARYLAND
Ed Wise
Dept. of Economic and Community
Development
301/269-3381

MINNESOTA
Patrick Connoy
Dept. of Energy and Economic
Development
612/297-1304

MISSISSIPPI
Nancy McClure
Dept. of Economic Development
601/359-3439

MISSOURI
Robert C. Simonds
Missouri Division of Community and
Economic Development
314/751-4849

NEVADA
Ted Bendure
Commission on Economic Development
702/885-4325 or

NEVADA (Cont'd)
George Ormiston
Commission on Economic Development
702/885-4345

NEW JERSEY
Stephen C. Brame
Dept. of Commerce and Economic Development
609/292-2765

OHIO
Howard Wise
Dept. of Development
614/466-4551

OKLAHOMA
Grover Phillips
Dept. of Economic Development
405/521-2401

OREGON
Norman Solomon
Dept. of Economic Development
800/547-7842
503/378-5573

PENNSYLVANIA
James G. Brandon
Dept. of Community Affairs
717/787-8169

RHODE ISLAND
Jerome Lessuck
Dept. of Economic Development
401/277-2601

TENNESEE
Michael McGuire
Economic Development Commission
615/741-2373 or

TENNESSEE (Cont'd)
Don Waller
Economic and Community Development
615/741-2211

TEXAS
Larry L. Lucero
Texas Economic Development Commission
512/472-5059 or

Karin Richmond
McAllen State Bank Tower
512/630-5257

VIRGINIA
Stan Kidwell
Virginia Dept. of Housing and Community Development
804/786-4966 or

John Marlles
Virginia Dept. of Housing and Community Development
804/786-4966

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Mike Savage
Enterprise Zone Coordinator
202/755-6588
FTS 755-6588

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TUESDAY, JULY 22, 1986

THE WALL STREET JOURNAL.

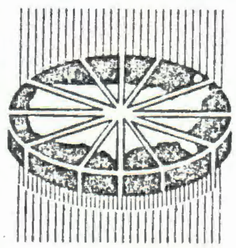
REGIONS

Where Blacks Fare the Best . . . Aid for Distressed Rural Areas

By EUGENE CARLSON
Staff Reporter of THE WALL STREET JOURNAL

BLACKS APPEAR BETTER OFF economically on Long Island, N.Y., than most anywhere else in the U.S. Using 1980 census figures on income and homeownership, William O'Hare of the Joint Center for Political Studies in Washington, D.C., studied the economic well-being of blacks in the 48 metropolitan areas with black populations of more than 100,000. About 60% of the nation's blacks live in these four-dozen metro areas.

Blacks living in Nassau and Suffolk counties, which comprise most of Long Island, had an average household income of $18,826, about three-fourths of the average white income in the area. By comparison, the average income for black families in all the metro areas was $11,501, or about 60% of white family income. Blacks in Nassau-Suffolk also had the highest rate of homeownership in the metro areas, 61%, and the lowest difference in value between white and black-owned homes, about $9,000. In San Francisco-Oakland, the average difference in white and black home values was nearly $42,000. Mr. O'Hare's study appears in the July issue of American Demographics magazine.

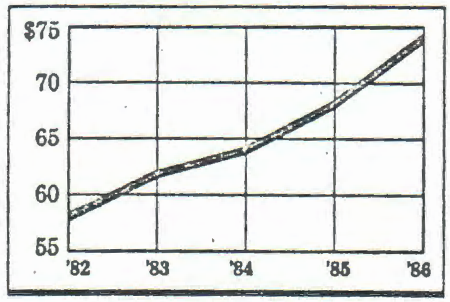


CAN RURAL ENTERPRISE ZONES win congressional approval after repeated proposals to create federally subsidized employment zones in urban areas have gone nowhere? Republican Sens. John Danforth of Missouri and James Abnor of South Dakota have introduced a bill that would offer tax and regulatory incentives to employers who locate in certain economically distressed rural areas. Up to 45 rural enterprise zones would be named by the secretary of housing and urban development in areas of under 50,000 population where unemployment is high and population is on the decline.

President Reagan has pushed the enterprise-zone concept since taking office. Employers would qualify for a string of investment incentives in return for locating, and creating, jobs in city slums. The bills have been stymied chiefly by House Democrats, although a mild version that lacks any tax incentives is part of the current House-passed housing bill. The Democrats don't like the idea of setting up federally protected enclaves where subminimum wages and nonunion membership are the rule. Supporters of the rural enterprise zones hope that the plight of farming communities and other rural small towns will soften the Democratic opposition.

Grocery Bills

U.S. households' average weekly grocery expenditures:



Source: Food Marketing Institute

What's New: Meteors, Mitts And More Milk

METEOR TRAILS may provide a new and more secure way to make telephone calls.

GTE Corp. says engineers at its government systems division have successfully sent voice signals into the air to be reflected by meteor trails and picked up again on earth. John Herman, a senior engineer at the unit, says the technique could be used to send voice signals as far as 1,200 miles.

In concept, the system works much like widely used satellite systems that currently transmit 50% of overseas phone

This is one of an occasional series of reports on technology that has reached the early stages of application.

calls. GTE's system takes advantage of the billions of minute meteors that strike the earth's atmosphere every day; the meteors leave a trail of electrons or ionized particles that can reflect signals. By clustering voice signals in tight bundles sent very quickly, GTE can ...

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Ana...

By
Staff Reporter of

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market analyst.
investors.

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prices jumping
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Bernard Chaus
of women's app
secondary mark
initial offering

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analyst with T.
Inc., a Baltimore
a treacherous n

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underwriters bro
panies—many to
price/earnings

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Inc. of Fremont,
talking toy bear
Shopping Network
which sells goods

Behind the la
institutional inves
ogy stocks are d
covered the consu

Richard E. Lyng
Secretary of Agriculture

202-447-3631 Washington, D.C. 20250

D. Crippen

Program Yields:

Problem:

Program payments are made according to how much a producer has grown over a period of time. In the 1985 Farm Bill, in order to reduce outlays and meet budgetary goals, Congress effectively froze yields at certain levels, ignoring how much a producer actually grew.

When Congress realized the impact of freezing yields, it changed the law in March 1986, to cushion any negative impact on farmers. In that law, Congress gave the Secretary the authority in 1988, to either continue to freeze yields or allow actual production to be the basis for payment.

Solution:

USDA recommends actual production be the basis on which to make program payments. Not to do so could invite further legislation to address this issue. It is in the potential for further legislation and the potential for unknown additional costly changes, which are the principal bases for this recommendation.

PROGRAM YIELDS

	CCC COMMODITY OUTLAYS		
	FY 1988	FY 1989	FY 1990
		($ Millions)	
January Budget	14,954	15,921	15,997
May Update (Estimate)	11,363	13,832	14,538
Change	-3,591	-2,089	-1,459
Yield Proposal	432	954	1,222

- Frozen Program Payment Yields Are Politically Unacceptable.

- Reopens Farm Bill for Legislative Changes as was done in 1986.

Soybeans:

Problem: Artificially high loan rates for soybeans have re-enforced the U.S. as a noncompetitive, residual supplier of soybeans to the world market. Nevertheless, the statutory rate for 1987 increases almost 5 percent from the 1986 level. Inability of U.S. producers to compete has forced soybeans plantings down 8 million acres in 6 years. Southern Hemisphere plantings have increased, however, in order to meet a growing world market which U.S. producers cannot reach due to current programs.

Solution:

To keep the U.S. soybean industry competitive, lower loan repayment rates must be established. The Farm Bill provides no other method to meet world competition. By establishing a $4.77 loan and a $4.25 loan repayment, U.S. producers would meet world competition and prevent further erosion of U.S. export market share.

Implications:

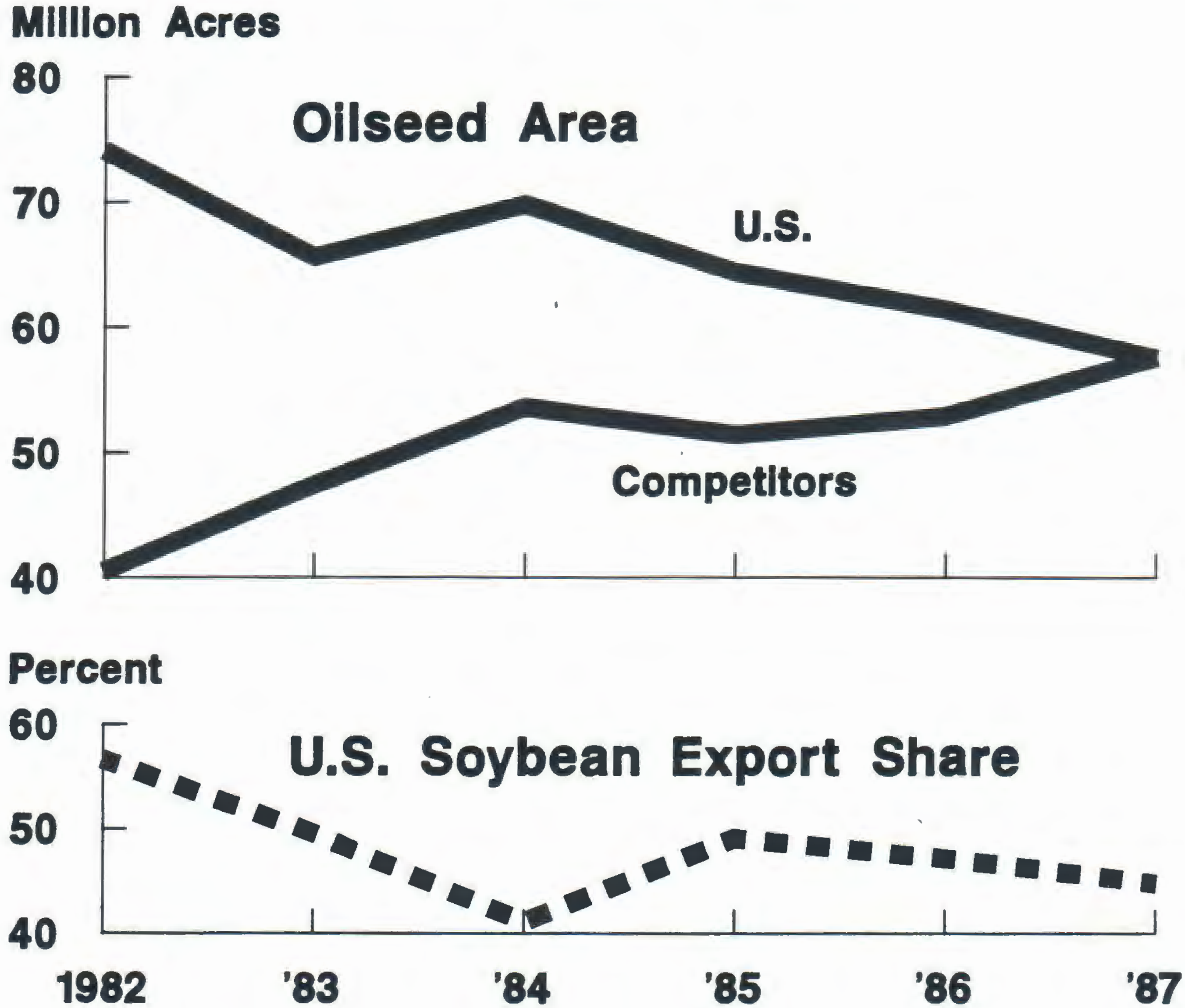
1. While the budget baseline is very difficult to meet, USDA's recommendation would result in net outlays of only $22 million over 4 years, a very modest amount.

2. A marketing loan for soybeans would not lead to marketing loans for other commodities because soybeans have no acreage controls or target prices, as do wheat and feed grains.

ASCS-DAPD

6-25-87

1987 Soybean Program



- U.S. export share down as world acreage rises.
- High soybean support rate will continue trend.
- Proposal: $4.77 soybean loan, repay at or above $4.25.
- Costs would rise initially, then fall.

To: DAG032
From: D.LANE (DAG032) Delivered: Tue 23-June-87 19:54 EDT Sys 157 (0)
Subject: Acknowledgment of: message.....dale.....
Original Mail Id: IPM-157-870622-130320091
Received: Tue 23-June-87 19:54 (Explicit)
Mail Id: IPM-157-870623-179120855

From: NEWS Delivered: Wed 24-June-87 7:13 EDT Sys 197 (88)
Subject: RICHARD LYNG :richard lyng has authority to implement that change wit
Mail Id: IPM-197-870624-065050001

ON THE FARM FRONT
(REG. U.S. PAT. OFF.)
By SONJA HILLGREN
UPI Farm Editor

WASHINGTON (UPI) _ The nation's largest farm organization advises against changing commodity programs established by the 1985 farm law _ except for soybeans, which were almost ignored by the law.

Dean Kleckner, president of the American Farm Bureau Federation, told a Senate Agriculture subcommittee Tuesday the soybean price support should be lowered enough to make prices competitive in global markets and farmers should be compensated with certificates that can be traded for commodities or cash.

He said Agriculture Secretary Richard Lyng has authority to implement that change without legislation. Lyng has acknowledged problems with the soybean program, but record farm program costs have left no money to add to subsidies.

Lawmakers are going through the motions of reviewing the 1985 law, but major revisions are unlikely.

Subcommittee chairman John Melcher, D-Mont., scheduled three hearings to consider changes in the law. Tuesday's meeting was merely a forum for general farm organizations to reiterate well-known positions. Later in the week, organizations representing specific commodities will testify.

Characterizing the hearings as "oversight," Sen. Patrick Leahy, D-Vt., chairman of the Senate Agriculture Committee, said he was not eager to rewrite farm legislation because it took so long to write the 1985 law, which lowered U.S. grain and cotton prices to make them more competitive and compensated farmers with record subsidies.

However, Leahy added that there are no parts of the law that cannot be reopened.

Kleckner, a Rudd, Iowa, farmer, told the subcommittee, "For the most part, we think the 1985 farm bill is working."

But he said soybeans have faced "certain negative consequences" stemming from policy changes of the 1985 law. Soybean farmers asked for subsidies relatively late in the 1985 congressional debate and Congress rejected them.

"The effect of more competitive loan rates and the use of certificates in feed grains has, without a corresponding adjustment to soybean loan rates, created a marketing advantage for feed grains in domestic markets and foreign soybeans in international markets," Kleckner noted.

"The problem with simply cutting the soybean loan rate is the lack of income protection in the form of a soybean target price," he said.

Kleckner rejected more comprehensive farm policy changes, including mandatory production controls, severing a traditional link between subsidies and production and marketing loans for feed grains, wheat or soybeans.

JUN 25 1987

June 29, 1987

Talking Points for Phone Calls to Lyng and Miller

Lyng

- I have decided to accept your recommendation for the wheat acreage rduction program—to retain the current 27.5% requirement

- In return, I would ask that you

  Option 1—withdraw your proposals on program yields and soybeans

  Option 2—a) withdraw your proposal on program yields and, b) should you continue to feel that a soybean program is necessary, allow the EPC to consider the issue at the appropriate time

  Option 3—allow the EPC to consider your proposals on program yields and soybeans

Discussion—

Option 1 is Jim Miller's preferred outcome. Option 3 allows the full argument that a more knowledgeable group should review these proposals and that the Cabinet ought to have a chance to review what appears to be a substantial change in policy which could have significant effects on the budget, trade relations, and trade negotiations. Option 2 is obviously in between.

Recommendation—

For your purposes, Option 3 is the best outcome. Miller will grumble a bit but view the EPC as a friendly forum for his arguments. You will not be charged with "making agriculture policy," but rather using the system of Cabinet government.

Miller

- Report the outcome of your call to Lyng

- Depending upon the Option you chose, reassure Miller that while you tend to agree with him, a fuller airing of the issues is necessary due to the possible implications to other Cabinet officers. You're confident his arguments will be persuasive in the EPC.